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# The Formation, Development and Economic Functions of Grain Exchanges.

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Modern grain exchanges are the product of the last sixty years, and have developed in all leading grain centers in response to the desire for large, well-organized market places.

With the development of enormous agricultural areas in the latter half of the nineteenth century, especially in the central and western portion of the United States, large surplus stocks of grain were created, which far exceeded the local demands. These surplus stocks required a world's market for their proper distribution to the consuming centers, and the development of such a market was greatly facilitated by the tremendous strides of the last century in methods of transportation and communication.

The grain trade rapidly became so important as to require market places where buyers and sellers from all parts of the world might meet to make transactions, in person or by representative. Convenience and promptness in buying and selling now became essential. Uniformity of usages, high standards of conduct, detailed organization of every branch of the trade, and efficiency in the operation of the business, became highly desirable. And so these grain exchanges, sometimes called boards of trade or chambers of commerce, were organized by those engaged in some branch of the grain or milling business.

The Chamber of Commerce of Minneapolis is a typical grain exchange, organized under a general statute of the State of Minnesota, which provides for associations of this character.

This statute reads as follows:

#### Sec. 2982. Formation—For What Purposes.

That any number of persons, not less than three, in any organized city, village, town or county in this state, may associate themselves and become incorporated as either a chamber of commerce or board of trade, or both, for the purpose of advancing the commercial, mercantile, manufacturing or agricultural interests of such city, village, town or county; for acquiring, possessing and disseminating useful business information; and for adjusting the controversies and misunderstandings which may arise between individuals engaged in trade and business; and for promoting the general prosperity of the locality of such organization.

#### Sec. 2983. Powers.

All persons so associating shall proceed in accordance with the provisions of title one of chapter thirty-four of the General Statutes of the State of Minnesota, so far as the same are or may be applicable, and every such corporation shall be endowed with the following, in addition to its ordinary powers, viz.:

#### Arbitration.

First, Said corporation may constitute and appoint committees of reference and arbitration, and committees of board of appeal, who shall be governed by such rules, by-

laws and regulations as may be prescribed by said corporation, for the settlement of such matters of difference as may be voluntarily submitted for arbitration, by members of said corporation, or by other persons not members thereof. The acting chairman of either of said committees or boards, when sitting as arbitrators, may administer oaths to the parties and witnesses, and, upon request of any party to such arbitration, any clerk of any court of record, on payment of his fees therefor, shall issue, subpoenas for the attendance of witnesses and production of papers before said committees, and the same may be served and obedience thereto enforced in like manner as process requiring attendance before the court issuing the same.

The statute goes on to provide for the manner in which the hearings shall take place before the Board of Arbitration, and also provides that the decision of the Board of Arbitration may be filed with the clerk of the District Court, and judgment entered thereon.

The Statute further provides as follows:

Fourth, Said corporation may inflict fines upon any of its members, and collect the same, for breach of its rules, regulations or by-laws. Said fines may be collected by action of debt before a justice of the peace, or in any court of record having jurisdiction of the amount of the fine, in the name of the corporation, or by temporary suspension or permanent removal from the membership, or removal from office therein.

The Statute also authorizes these associations to hold property for the use of the Association. It further provides as follows:

It may prescribe the terms and conditions of its membership, the mode of admission of members, the number and mode of election of its officers, the appointment of its agents and employees, and their functions and duties, and generally as to the management and transaction of its business and affairs, either by by-laws or resolutions and when the business of the corporation is managed by or through a board of directors or other body, such board or body shall be considered as vested with, and may exercise all the powers of the corporation, and such board of directors or other body, whenever by it deemed necessary, may raise money for the purposes of the corporation by assessments upon the members thereof; and the payment of such assessments may be enforced by a sale or forfeiture of the membership of any member failing to pay the same, in such manner as the by-laws or rules may provide.

The Chamber of Commerce of Minneapolis was organized under the provisions of this Statute, which, however, conveyed no special privilege upon the members of this organization, but merely authorized these individuals to associate themselves together as a voluntary association, in the form of a corporation, and provided the manner in which this should be done. All of the expense

nected with the formation and maintenance of the market place was borne entirely by the members thereof.

The general objects and purposes of the Chamber of Commerce are set forth in its articles of incorporation, as follows:

"To facilitate the buying and selling of all products, to inculcate principles of justice and equity in trade, to facilitate speedy adjustments of all business disputes, to acquire and disseminate valuable commercial information, and generally to secure to its members the benefits of co-operation in the furtherance of their legitimate business pursuits, etc."

#### The Exchange Room.

The first work of the association was to provide a place where buyers and sellers might meet, and this consists mainly in the Exchange Room of the Chamber of Commerce. This exchange room is provided with tables, where samples of grain and seed may be displayed for sale. A large blackboard is provided, upon which is displayed complete information regarding the supplies of grain in store at the leading markets, and continuous telegraphic information is also displayed regarding grain values at all the leading markets of the country.

Telephone and telegraph facilities are also provided in the Exchange Room, and the members are assisted in the transaction of their business by means of these facilities, and through the vast amount of valuable information which the Association secures and furnishes to its members.

#### Rules and Regulations.

Owing to the enormous volume of business which is transacted by the members of grain exchanges, it becomes very important that this business shall be transacted in a proper manner, and it is therefore necessary that rules and regulations be provided which shall result in establishing and maintaining uniformity in commercial usages, as provided by the statute, and as far as possible safeguarding the interests of all those connected, directly or indirectly, with the buying and selling of grain.

A modern grain exchange, such as the Chamber of Commerce, is therefore simply an organized market place. The exchange, such as the Chamber of Commerce, is not organized for the making of money, and does not fix prices or buy or sell grain as an organized body. It is merely instrumental in affording a convenient market place, and regulating trade, and disciplining the conduct of its members. Its members act on their own responsibility. They may do as much business as they like, provided they conform to the standards, which the rules of the exchange prescribe for the regulation of the trade.

The Chamber of Commerce of Minneapolis, therefore, like church corporations, or fraternal societies, is a voluntary association, in the form of a private corporation.

#### Membership.

The membership of the Chamber of Commerce of Minneapolis is limited to 550. This gives the membership privilege a certain value, and by virtue of the fact that the membership privilege is valuable, makes it comparatively easy for the Board of Directors to secure obedience to the rules of the organization, on account of the fear of suspension or expulsion in case of violation of the rules. In those grain exchanges where membership is unlimited, or exceedingly large, memberships have comparatively little value, and as a consequence it is much more difficult to secure strict compliance with the rules and regulations on the part of the members. There has been some criticism of the fact that applicants for membership in the Chamber of Commerce must first be approved by the membership committee and by the Board of Directors. A moment's consideration should show how important this is to the shippers in the Northwest such as farmers elevator companies.

When a farmer, or farmers elevator company, consigns a car of flax worth possibly \$1500 or \$2000, to a member of the Chamber of Commerce to be sold on commission, it is exceedingly important that the member to whom this car is consigned be a man, first, of unquestioned honesty, and second, of unquestioned financial standing. It is not at all difficult for any individual, whose reputation for honesty and fair dealing is of the best, and whose financial

standing is satisfactory—to secure admission to the Chamber of Commerce. In fact, the membership is constantly changing, and these changes amount to about fifteen per cent of the total number each year.

It is exceedingly difficult, however, for an individual not financially sound, or who has a record for shady transactions, to secure admission. In scrutinizing carefully every application for membership, the membership committees and the Board of Directors in fact perform a very useful service directly in the interest of every farmer and farmers' elevator company in the Northwest. Every farmer and farmers' elevator company should be strongly in favor of the highest possible standard of admission to grain exchanges, such as the Chamber of Commerce of Minneapolis; as this simply means increased security to the farmers' elevator companies in dealing with members of this organization.

Certain individuals have endeavored to create the false impression that farmers or farmers' elevator companies would find it difficult to secure admission to the Chamber of Commerce. This statement is absolutely false. A farmers' elevator company of North Dakota has been a member of the Chamber of Commerce for many years, and there are hundreds of officers of farmers elevator companies throughout the Northwest who would be welcomed as members of the Chamber of Commerce, and who would reflect credit upon the organization.

Precisely the same inquiries would be made of a farmers' elevator company as of any other applicant; that is, it would simply be necessary to show that those connected with the company were men of unquestioned honesty and integrity, and that the concern was sound financially.

Memberships are easily secured, and are being bought and sold constantly.

#### Commission Merchants.

Among the most important classes of members of the Chamber of Commerce of Minneapolis are the commission merchants. These individuals are thoroughly familiar with the grain business, and are able to deal on equal terms with the buying interests, and in every manner protect the interests of the country shipper.

In addition, these commission merchants keep the country shipper very fully advised regarding the market conditions, and since it is to their interest to secure the highest possible price for the grain consigned to them for sale, the keenest competition exists between them in selling the grain of their customers to the best possible advantage.

#### Buying Interests.

Among the buying interests in the Chamber of Commerce are the representatives of the large flour mills, located at Minneapolis, and also buyers for country mills, located at points in Wisconsin and Minnesota adjacent to Minneapolis. In addition to these, there are the buyers for the large terminal elevator companies, who buy grain for storage purposes; also the buyers for terminal elevators engaged mainly in the mixing business; or, elevators engaged in the shipping business, providing New England and the Eastern States with their requirements of Wheat, Oats, Flour, Barley, etc. There are also buyers for the malting houses located at Minneapolis and elsewhere. A number of flaxseed crushers are also located at Minneapolis, making it one of the largest flax markets in the country.

In addition to all these buyers for consumptive purposes, there is the class of buyers known as "scalpers." These buyers are speculative buyers of cash grain. Their competition practically compels the regular buyers to pay the full market values at all times, with the result that the commission merchant in offering the grain of the country shipper for sale in the Exchange Room, is able to secure at all times full market values—owing to the keenness of the competition existing between the regular buying interests themselves, and between them and the speculative buyers, or scalpers.

#### Competition.

In addition to the keen competition which exists within the Exchange Room of the Chamber of Commerce as a market place, there is also the keenest competition between the members of the various grain exchanges as against each other, with the result that the country shipper is able to ship his grain to the market place which offers the highest prices, thus forcing the buying interests in one

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market place to meet the competition of other market places, in order to secure their requirements.

#### The Commission Rule.

One of the regulations of the Chamber of Commerce that has at times been criticized is the commission rule, which provides a minimum rate of a commission to be charged for the purchase and sale of grain or seeds. This criticism is entirely without any just foundation. The commission rule is one of the best and most important rules of the organization. The commission charges provided are reasonable in amount, and this fact has frequently been so decided by the courts. In addition to the fact that they are reasonable in amount, it is important to country grain dealers that the charge for selling grain or seeds shall be uniform, so that all shippers to this market shall be treated alike. It is also important that the shippers to this market shall know just what the commission charges are, and a rule of this character absolutely protects the shipper from any exorbitant charge.

Not only is it important that the charge be reasonable and uniform, but it is equally important to the country shipper that a commission charge shall be required.

The commission rule and the commission charge which it provides, preserves to the country shipper and the farmers elevator company this highly skilled class of men, the commission merchants, who form so important a part of this organization. If the commission rule were destroyed, and no uniform commission were required to be charged, the commission merchant would immediately cease to exist. The result would be that the farmers elevator and country shipper would find themselves wholly deprived of these skilled representatives, and it would be impossible for them to secure anything like the values they now secure through these skilled agents. In other words, it is exceedingly important that there shall exist in this market a class of men strictly representing the country shipper, and whose knowledge of the grain business enables them to deal on equal terms with the buying interests. The commission rule prevents these representatives of the farmers' elevator companies from being driven out of existence.

In future articles we shall discuss future trading, hedging, etc., etc., but before closing this article, we wish to call attention to the enormous advantage which every commission merchant, member of the Chamber of Commerce, has over those who are not members of the Chamber of Commerce, or other recognized grain exchanges, and who are soliciting consignments of grain from country shippers.

The Chamber of Commerce gathers from all the other markets at great expense through the Western Union Telegraph Co., complete information regarding market conditions. This information is, of course, for the use of members only.

Practically all the buying interests of any consequence are members of the recognized grain exchanges, and make their purchases almost exclusively in the Exchange Rooms

of these organizations for the reason that these purchases are made with a far greater degree of security than is the case if made outside of these organizations.

The sellers of grain in recognized grain exchanges are not only known to be financially responsible, but in addition must guarantee the title to the grain to the buyers, so that in case it should develop that the grain was mortgaged, or subject to threshers' liens, etc., that the buyer would not suffer any loss thereby.

Grain is constantly being shipped to those not members of the Chamber of Commerce, and sold upon the floor of the Chamber of Commerce with full commissions deducted. No possible advantage can accrue to the shipper in shipping grain to non-members of recognized grain exchanges. This grain must necessarily be peddled around to a very limited number of buyers, who are therefore enabled to purchase the same at practically their own price; or else resold in the Exchange Room of one of the recognized grain exchanges, and double commissions exacted, from the country shipper. Of course, if the country shipper wishes to pay two commissions for the sale of his grain, that is his privilege.

If the farmers elevator companies of the Northwest desire to sell their own grain in the Exchange Room of the Chamber of Commerce, there is nothing whatever to prevent their doing so. It would probably be necessary for a sufficient number of farmers elevators to join together in the formation of a company, which would have sufficient capital to justify it in engaging in the grain business at the terminal market, and furnish assurance of sufficient business to justify the maintenance of an office at the terminal market. Such a selling agency organized by real farmers, and officered by individuals of well-known integrity and honesty, and with reasonable financial stability, would have no difficulty in securing admission to the Chamber of Commerce of Minneapolis, and would enjoy all of the privileges and benefits of membership therein. At present, the farmers elevator companies have their grain sold through commission merchants, and there is no doubt whatever regarding the honesty or the efficiency of the service rendered by these commission merchants. No one could testify more strongly to this effect than the farmers elevator companies themselves; but at the same time, there is nothing to prevent the farmer elevator companies from actually selling their own grain in the terminal market place, if they so desire. Such a selling agency, properly organized, would be certain of admission, and would be practically assured of success. The Chamber of Commerce as an organization is not engaged in any manner in the grain business. Its sole purpose is to operate a market place in the most efficient manner, and the qualifications for admission consist merely in a record for honesty and fair dealing and reasonable financial stability. The fact that a farmers elevator company in North Dakota has been a member for years proves that falsity of the statement that a farmers' elevator company would have difficulty in securing admission.

# Future Trading, Hedging and Speculation in Grain Exchanges.

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Since no feature of grain exchanges has met with so much adverse criticism as the buying and selling of grain "for future" delivery, we shall in this article endeavor to explain the exact nature of future trading, and in connection therewith *speculation* and *hedging*.

## Futures.

"Futures" as the term is generally used in grain exchanges, is the contract for the purchase and sale of grain to be delivered during some future month. The great majority of future trades are made for delivery in one of four months, May, July, September or December. Contracts could of course be made for the delivery of grain in other months than those above mentioned; but taking into consideration the time of the crop movement, these months have proven to be convenient for hedging purposes, etc., and with the result that the bulk of the trading for future delivery is for delivery in one of the months above specified.

Sales for future delivery in all recognized grain exchanges are based upon one or more contract grades. These grades differ somewhat between the various exchanges, depending upon the character and quality of the grain produced in the territory tributary to these exchanges.

The Rules and By-laws of the Chamber of Commerce of Minneapolis, Sections 1 and 2, of Rule XI, provide as follows:

### "Rule XI.—Rights of Parties on Contracts.

Section 1.—In all sales of grain and flaxseed for future delivery, the grades shall be No. 1 Northern Wheat, No. 3 Corn, No. 3 White Oats, and No. 1 Flaxseed, as established by Joint Board of Grain Appeals, or other properly constituted authority of the State of Minnesota; provided that on all contracts based on these grades, all higher grades of the same grain may be delivered; and, provided further, that on all sales of wheat, No. 2 Northern Wheat, as established by Joint Board of Grain Appeals, or other properly constituted authority of the State of Minnesota, may be delivered and applied at a discount of three and one-half (3½) cents per bushel below the price of No. 1 Northern; and provided further, that No. 2 Oats cannot be delivered on contracts for oats for future delivery.

Section 2.—On all contracts grain inspected either old or new can be delivered, unless otherwise specified."

A purchase and sale therefore of 5,000 bu. of Minneapolis May Wheat made in the Exchange Room of the Chamber of Commerce is a contract, in which the seller agrees to deliver to the buyer, sometime during the month of May next succeeding, 5,000 Bu. of No. 1 Northern Wheat, as established by the Joint Board of Grain Appeals, or other properly constituted authority of the State of Minnesota; and the buyer contracts to pay for this No. 1 Northern Wheat the price per bushel agreed upon. The Minnesota State Inspection Department is the judge as to the quality of the grain, and determines whether the grain tendered on this contract is or is not No. 1 Northern Wheat.

It is further understood between the buyer and the seller, on account of the Rules of the Chamber of Commerce governing deliveries, that the delivery of this grain by the seller to the buyer shall be in the form of a warehouse receipt, issued by a public-licensed terminal warehouse at Minneapolis, or within the switching limits. This public licensed terminal warehouse must also be "regular" under the rules of the Chamber of Commerce; that is, it must be recognized as "regular" by the Board of Directors of the Chamber of Commerce, and its receipts deliverable on future contracts.

The warehouse receipt which is deliverable to the buyer must also have what are known as five clear days before an additional term of storage would accrue against the warehouse receipt, during which five days the buyer may have an opportunity to have this wheat loaded into cars. The usual loading out charge (at present 1½ cents) "follows" the receipt, and is paid by the buyer to the warehouseman issuing the receipt, when the grain is loaded out. If the grain is not loaded out within five days after the receipt is delivered to the buyer, additional storage may accrue, which will also be paid by the buyer.

The seller has the privilege of making the delivery of this warehouse receipt to the buyer at any time on any business day during the month of May, and can deliver No. 1 Hard Wheat if he so desires, without, however, securing any premium therefor; or, he can deliver a warehouse receipt calling for No. 2 Northern Wheat at a discount of 3½¢ per bushel below the price of No. 1 Northern. The "loading out" charge or other storage charges of the terminal elevator issuing the receipt are fixed by the terminal elevator companies and published in accordance with the law during the first week in September, for the following year. A statute of the State of Minnesota fixes the maximum charge that can be made by the public terminal elevators.

### Chamber of Commerce Clearing Association.

Before discussing speculation or hedging, it might be well to explain briefly the operation of a very important organization, known as the Chamber of Commerce Clearing Association.

This Association is a corporation, and has the privilege of corporate membership in the Chamber of Commerce of Minneapolis, the same as many other corporations. The general purpose of this clearing association is almost precisely the same as the clearing houses which the banks of the various cities have organized for the greater convenience of the banking business. All the members of the Chamber of Commerce are not members, or stockholders in the Clearing Association, but only those members who find this organization a convenience in the transaction of their business.

When two members of the Chamber of Commerce make a contract for future delivery, on the floor of the Exchange

Room, and both these members are also members or stockholders of the Chamber of Commerce Clearing Association, they make reports on blank forms provided for that purpose to the Clearing Association; one party—whom we shall call A, reporting the sale to the second party, whom we shall call B, of 5,000 Bu. of May Wheat, at 85c per bushel; B makes a similar report, showing the purchase from A, of 5,000 Bu. of May Wheat at 85c; both these reports being forwarded to the Clearing House promptly after the close of the market. The market hours in the Chamber of Commerce of Minneapolis are from 9:30 A. M. to 1:15 P. M. on every week day except Saturday, when the market closes at 12 o'clock, and these are the trading hours of most of the grain exchanges of the country.

The Clearing Association immediately makes a record of these reports showing A, to be "short" 5,000 Bu. of May Wheat, and B, to be "long" 5,000 Bu. of May Wheat. The total amount of wheat which is short in the Clearing Association must always be precisely equal to the total amount of wheat which is long in the Clearing Association.

The Clearing Association requires all open trades upon its books to be protected or margined daily; that is, if at the close of the market the day following the date of the trade above mentioned, May closed one cent higher than on the previous day A, would be required to forward a check for one cent per bushel or \$50, to protect his short sale to B, and the Clearing House would forward a check to B in this same amount. If the market fluctuates considerably, the Clearing House may require additional and special protection, as margins from its members. The Clearing House is maintained by a small charge made for clearing trades.

We will suppose that in the above case, B was a speculator. The market having advanced one cent per bushel, the purchase from A shows B a profit of one cent per bushel, or \$50, and he may desire to sell the wheat which he has contracted to buy from A, to C. If he does so, B reports the sale of 5,000 bushels of May wheat to C at 86 cents, and C reports the purchase of 5,000 bushels of May wheat from B at 86 cents. If this is the only open trade that B has in the Clearing Association, the Clearing House would cancel the purchase from A with the sale to C, and B would be neither long nor short in the Clearing Association. The Clearing Association would then show A still short 5,000 bushels of May wheat, and C long 5,000 bushels of May wheat, thus substituting C for B, as the party to take delivery of the wheat sold by A.

All contracts for the purchase and sale of wheat for future delivery, whether speculative or not, must contemplate the actual taking of the delivery; and if an individual makes a purchase of wheat for future delivery, as B did from A above mentioned, B is quite certain to receive delivery of 5,000 bushels of No. 1 Northern Wheat, as evidenced by a warehouse receipt as above mentioned sometime during the month of May following, unless before delivery takes place he re-sells the contract to another purchaser, as in the case last above cited.

A may have sold this wheat as a hedge, and his actual wheat having reached the terminal market before the month of May, he may see fit to sell the cash wheat and buy back his hedge, viz., this sale of 5,000 bushels of May wheat which he sold to B. In this case, A may buy 5,000 bushels of May wheat from D, in which case D is substituted by the Clearing Association in place of A, and if no further substitutions take place, D would deliver the 5,000 bushels of No. 1 Northern wheat to C, sometime during the month of May.

#### Hedging.

Having explained the nature of a future contract, and the Association through which future trading is greatly facilitated, we shall endeavor to explain how these contracts for future deliveries, or futures, are made use of as a hedge or protection in the transaction of the grain and milling business. At this time it might be well to point out that there is great carelessness in the proper use of the word "futures" and "options".

A future is a contract, as set forth above. The only option feature in connection with this contract is the "option" which the seller has of selecting any one day during the entire month on which to make delivery, and also to exercise the privilege which he possesses of applying higher grades on a contract, or No. 2 Northern at a discount of 3½ cents. In other words, sales for May, July,

September or December, should be referred to as futures, not as options, the word "option" having a meaning entirely distinct from that of the word "futures".

The word "option" is generally used in connection with purchases of land, an option upon a piece of land being a right or option to purchase this land at a fixed price within a certain length of time, this privilege or option usually being paid for by the party having the option.

The purpose of hedging is to avoid a risk known as the speculative risk, which attaches to ownership of any kind of property, including wheat. Whoever owns wheat, whether it be a farmer with wheat in his grainery, a farmers elevator company with wheat in the elevator, a terminal elevator with wheat in store, or a miller with wheat on hand for manufacturing purposes, speculates thereon. That is, the owner of the wheat takes the risk of loss through a fall in the price, and also has the possibility of gain through a rise in the price. Legislation can never destroy speculation, as this is something that is necessarily connected with the ownership of any kind of property, including wheat.

In many classes of farm produce, and in many kinds of merchandise, it is impossible for the owner to hedge or to protect himself from this speculative risk, and many classes of farm products and manufactured articles generally must be "merchandised". That is, the manufacturer, wholesaler or retailer must assume this risk whether they wish to or not. The result is that a profit must be taken large enough to justify the risk, for the reason that only that class of products that can be dealt in with safety, and without a speculative risk, can be handled on a narrow margin of profit.

On certain classes of grain, however, this speculative risk can be shifted by those engaged in the actual handling of grain upon a special class known as speculators, and this is done by means of sales for future delivery, as before mentioned; which are known as hedging sales; or by purchases for future delivery, which are known as hedging purchases.

Wheat, Corn, Oats and Flax, can be sold for future delivery. Barley cannot be sold for future delivery, for the reason that while the keeping quality of this grain is satisfactory, it is difficult to establish contract grades which shall be sufficiently definite for commercial purposes; and Barley is therefore not sold for future delivery, but is bought and sold by sample almost entirely. Those engaged in the buying and selling of barley therefore must assume the speculative risk connected with the handling of this class of grain, and this results from time to time in severe losses, and also results in the fact that barley is not and cannot be handled on the same narrow margin that prevails in the handling of wheat, and for the reason as above stated that this class of grain cannot be sold for future delivery, and for this reason only.

A farmers' elevator company purchasing wheat for cash, and storing same at its country elevator would be speculating thereon if it did not hedge the same by a sale for future delivery. If a farmers' elevator company, purchasing 5,000 bushels of wheat in September, immediately sells the same in a terminal market for December delivery, the result would be to secure the trade profit on which this wheat was bought from the farmer, regardless of the change in the market price thereafter. If this wheat has been purchased at a profit of 3c a bushel, after deducting the freight to the terminal market this profit would not be increased by any advance in price of wheat, or decreased by any decline in the price of wheat. Suppose this wheat were shipped out in October, and arrived in the terminal market in November, and sold as cash wheat, and at the same time, the hedge, or the sale for future delivery bought in. If the price of wheat had advanced 5 cents per bushel, an apparent profit would be made in the sale of the cash wheat through the advance in price. But, as is ordinarily the case, the future month (December in this case) would also have advanced 5 cents per bushel, and in the purchase of this hedge a loss would be made of 5 cents per bushel, which would exactly offset the gain in the sale of cash wheat of 5 cents per bushel, still leaving the original profit of 3 cents per bushel.

Or, if the market had declined 5 cents per bushel, the sale of the cash wheat would show an apparent loss of 5 cents per bushel through the decline. But the future month or hedge would probably show the same decline, so that the

purchase of the hedge would show a profit of 5 cents per bushel, which in this case would exactly offset the apparent loss of 5 cents per bushel.

This system of selling for future delivery enables the farmers elevator company, the independent dealer, and the line elevator company, to avoid the speculative risk which would exist in case their cash purchases at country stations were not hedged.

On the other hand, the miller frequently makes sales of flour for delivery many months in advance, based upon the price of wheat at the time of the sale. If the miller purchased no wheat for future delivery as a hedge against this flour sale, the miller would be assuming the speculative risk, which the milling interests on the whole greatly desire to avoid. If the miller did not purchase the wheat until the time arrived to fill the sale of flour, and wheat had advanced in the meantime 5 cents per bushel, he would lose 5 cents per bushel through the advance, since the sale of flour had been based upon the price existing before the advance.

On the other hand, should wheat have declined 5 cents per bushel, he would have made a profit of 5 cents per bushel through the decline, in addition to the profit existing on the sale of the flour at the time of the sale, due to the fact that the wheat could be purchased at 5 cents less than the price prevailing at the time the flour sale was made.

Hedging purchases and hedging sales, therefore, add greatly to the security of the grain and milling business. They prevent the possibility of speculative profits, but also prevent speculative losses; and all branches of the grain trade, and those engaged in the milling business, or the crushing of flaxseed, are quite willing to give up the possibility of speculative gains in order to avoid speculative losses.

When the farmers elevator company, independent dealer, line elevator company and terminal elevator operator or dealer, conduct their business in a safe manner by hedging all purchases or sales, the result is that the banking interests—who furnish a very large portion of the money necessary to carry on the grain and milling business—are willing to furnish much larger sums than would otherwise be the case, and at a much lower rate of interest. This reduction in the rate of interest required on account of the security and the safeguards thrown around the grain and milling business through the system of hedging by sales for future delivery greatly decreases the cost of distribution, and is one of the reasons why grain that can be hedged by sales for future delivery is handled and can be handled on a much narrower margin of profit than grain or produce which cannot be hedged or sold for future delivery.

In fact, therefore, hedging is an insurance against a real and ever present hazard in business. Every leading grain exchange, such as the Minneapolis Chamber of Commerce, renders in this respect a function as legitimate and useful as our life and fire insurance companies, and in fact they should be regarded as among the greatest insurance interests in existence. Here a type of risk is underwritten that is so dangerous that no private insurance company has ever wanted to underwrite the same. A purchaser of large amounts of grain and cotton who does not enter the futures market for hedging purposes speculates as really as if he purchased the "future" for speculative purposes.

The risk of losing the small trade profit, and many times more than this, must be apparent when we reflect that each year's crop is financed to 90 per cent of its value on borrowed funds, and that value often changes in a week or two by several times the trade profit expected.

The speculative risk is a dangerous one, and the chance of a heavy loss many times greater than that connected with many forms of insurance. This practice of hedging is now almost universal in the grain and milling business, and in the cotton trade. Some criticism has been made because it appears that the quantity of sales for future delivery is several times that of cash sales. Those who make this criticism do not seem to realize that the same grain may be hedged many times. That is, every time the ownership of this grain changes, a new hedge may be put out, and the previous hedge taken in with the result that if the ownership of the actual grain changes hands several times, as many hedges will be put out against the purchases. If a farmers elevator company purchased the grain originally, it would hedge these purchases by a sale for future delivery. If this grain is later sold to a terminal elevator, the terminal

elevator will put out a hedge against its purchases, and the farmers elevator company will buy in their hedge. When the terminal elevator company sells this grain to a miller, this miller will also hedge this purchase, while the terminal elevator company will buy in its hedge, etc., etc. Thus many illustrations may be made, where the same grain passing from the farmer to the consumer is hedged half a dozen times, as each transaction involves first a sale and later a purchase. Occasionally the owner of grain will change his hedge from one future month to another, buying in a hedge placed in December, and re-selling for future delivery in May. This changing of hedges from one month delivery to another also increases the total amount bought and sold for future delivery.

#### Speculation.

This brings up the subject of speculation, and the useful function which speculation performs in the distribution of the crop.

There are many who consider that speculation and gambling are one and the same thing. The fact is that there is a marked distinction between the two. Speculation consists in the assumption of a risk which already exists, and must be assumed by someone. The risks assumed by fire insurance companies, life insurance companies, accident insurance companies, etc., are in fact speculative risks. As a result of the study of a vast number of cases, the insurance companies are able to estimate the risk with reasonable accuracy, and to base their premiums upon these estimates. Speculation in grain in the same manner is the assumption of the speculative risk connected with the ownership of any kind of property. This risk already exists, and must be assumed by someone, either by those engaged in the actual distribution of the crop, or by a useful class known as speculators. As the average merchant is unwilling to assume the risk of fire which might destroy his property interests, and prefers to shift this risk upon the fire insurance company, so also those engaged in the grain and milling business or in the manufacture of linseed oil prefer to shift the speculative risk connected with the ownership of grain, etc., to those who make a specialty of assuming these risks, as do the fire insurance companies in assuming the fire risk.

Now, the clear distinction between speculation and gambling consists in this, that the risk already exists, and is connected directly with the transaction of business. The assumption of the speculative risk on grain, is like the fire hazard assumed by the fire insurance company, which relieves the general public of this risk, and places it upon those who are better able by virtue of their knowledge to assume these risks.

The gambler creates a risk for the purpose of assuming it, and this risk when created performs no useful service whatever, and its assumption is wholly unnecessary. The customers of the proprietor of a gambling den, in playing various games of chance, are assuming a risk which performs no useful service. The bets made upon horse races, etc., are strictly gambling transactions, so also are the transactions in bucket shops, which are mere bets between the proprietor and the customer. If the customer wins, the proprietor loses, and bucket shops are gambling dens of the worst character.

The speculator who is competent financially and educationally to engage in this line of work is performing precisely the same service that the fire insurance companies perform, who assume the fire hazard on property generally.

It must be borne in mind that the bulk of the crop is marketed by producers within a few months after the harvest, and thus a year's supply is thrown upon the market during a fraction of the year. During September, October, November and December, the supplies of grain which are delivered to the local and terminal markets are vastly in excess of the consumptive demand during that period. Were it not for the speculator, the result would be that the bottom would fall out of prices during the heavy crop moving period. Because of the producers' desire to convert the bulk of their crop into cash immediately after the harvest, it becomes necessary for someone to "carry" this surplus until such time as it may be needed. And this is the work of the speculator. Estimating the total supply, and the probable total demand during the entire year, he purchases the surplus marketed during the fall months for May and July delivery. This wheat is actually carried in local or terminal elevators, but the speculative risk connected

therewith is borne by the speculator. The general effect of speculation is to moderate the fluctuations in value. It tends to maintain the price in the fall, during the heavy marketing period, when the price would otherwise sink to very low levels, and on the other hand tends to prevent exaggerated values in the late summer, when the crop is to a large degree exhausted. In other words, speculation tends to steady prices, and to prevent their being much above or below what the theoretical price should be, if the total year's supply and demand were actually known.

Speculation, therefore, will always exist. "Anti-future legislation" which proposes to prevent sales for future delivery, or to tax them in such a manner as to destroy them, would only result in throwing the speculative risk upon those actually engaged in the distribution of the crop. It would be much the same as if legislation should forbid selling of fire insurance, thus throwing the risk of fire upon the general public, instead of permitting fire insurance companies (who are vastly better able to assume this risk than the general public) to do so.

The so-called "Kyle Commission," appointed by the United States Congress to investigate market conditions, reported favorably regarding the useful function of speculation. This Kyle Commission was appointed strictly in the interests of producers, and the conclusion of this commission was that only that class of farm produce was handled, and could be handled on a narrow margin of profit between the producer and the consumer, that could be sold for future delivery, and that sales for future delivery were made practicable only through the speculative purchases and sales for future delivery. This Commission called attention to the fact that in Germany at one time future trading in grain was forbidden, with the result that the price of grain to the producer was reduced greatly, without resulting in any corresponding cheapening in the cost of flour; the difference between the price paid to the producer, and the cost to the consumer being very much wider than before future trading was forbidden. The result was that after a few years, future trading was re-instated.

Legitimate speculation, however, is entirely different from manipulation, and this is guarded against by the following regulations of the Chamber of Commerce:

RESOLVED, that offers to buy or sell large quantities of grain or seeds for future delivery, with the limitation requiring the buyer or seller to purchase or sell the entire amount offered, is not permissible and is hereby forbidden. All such bids or offers to buy or sell grain or seeds must be open for acceptance by any member in lots of five thousand bushels or multiples thereof.

The spirit of this order is that pit-trading shall be open and free, and that our market shall maintain the full breadth and fairness for all for which it is noted.

RESOLVED, that the making of pretended or fictitious offers to buy or sell futures in pit-trading is uncommercial conduct, and is hereby forbidden; the purpose of this resolution being to put an end to all bids or offers which are not made in good faith and intended to be carried out if accepted.

This regulation is very effective in preventing manipulation, and with this regulation in force, no individual would dare to attempt to manipulate the market by offering to buy large quantities "all or none" above the market price, or offering to sell large quantities "all or none" below market price, for the purpose of influencing the market. If any such offer was made it would be accepted by a large number of individuals, to the great financial loss of the parties making the offer,

In addition to this, "corners" are absolutely prevented

in the Chamber of Commerce of Minneapolis by virtue of the rule quoted in the beginning of this article, relating to contract grades. A "corner" is only possible where the supply of the contract grade is limited. If the contract grade were No. 1 Hard, for instance, the supply of this particular grade of grain would be so small as to furnish an opportunity for individuals with large means to purchase the entire supply, and to force the price to very great heights, with the result of causing great losses to those hedging their grain by sales of the contract grade. It is therefore important that the quantity of contract grade shall at all times be reasonably great. The Chamber of Commerce regulation in this matter is most excellent. No. 1 Northern is the contract grade, but on all sales of No. 1 Northern for future delivery No. 2 Northern can be applied at a discount of  $3\frac{1}{2}$  cents. This spread is somewhat larger than is ordinarily the case, and therefore No. 2 Northern is very rarely actually applied because it is worth more than  $3\frac{1}{2}$  cents less than No. 1 Northern.

Should, however, the weather conditions during the harvest be adverse, with the result that the quantity of No. 1 Northern grade be considerably reduced, then No. 2 Northern could be applied at the discount of  $3\frac{1}{2}$  cents on futures contracts; and this so greatly increases the total quantity of deliverable grain as to make a corner almost an impossibility.

In other words, the Chamber of Commerce of Minneapolis is determined to make this market a safe market for hedging purposes, and while the speculator is given reasonable opportunity to operate, all manipulation of the market, or the running of corners, is successfully prevented.

In all this we have considered speculation from the standpoint of those who were qualified financially and educationally to engage in this class of business, the same as the fire insurance companies are qualified financially and through wide experience to assume the fire risk. Unfortunately, a great number of individuals engage from time to time in speculation both in grain and real estate who are not justified from any standpoint in assuming this risk.

One of the greatest problems which presents itself to the recognized grain exchanges is to prevent these individuals from making use of the futures market for speculative purposes. While it is true that the speculative trades of these incompetent individuals, do in a small measure "broaden" the market, and assist in the distribution of the crop, still the injury inflicted upon these individuals by their losses is out of all proportion to the service which their speculative trades perform in the crop distribution.

The Chamber of Commerce of Minneapolis is at present endeavoring to secure concerted action by all grain exchanges in the adoption of some rules and regulations which will make it more difficult, if not impossible, for incompetent individuals to engage in speculative future trading.

A very large proportion of the criticism directed at grain exchanges is due to the losses suffered by the so-called "lambs," who engage in speculation. It is exceedingly unfortunate that grain exchanges, performing so useful a function in distributing the crop, should be criticized severely because of the unwise and unjustified action of individuals in engaging in speculation. The problem of shutting out the "small fry" from the market, at the same time permitting farmers' elevators, farmers and others to do legitimate hedging of small quantities of grain, presents many difficulties; but it is entirely possible that some solution of this problem can be arrived at by joint action of the various grain exchanges. If this problem can be successfully solved, it will relieve the grain exchanges of an enormous amount of criticism which is now directed towards them.

# Minnesota State Inspection and Weighing Departments and Sampling Bureaus.

By

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In this article we shall explain the work of the Minnesota State Inspection and Weighing Departments, and the Sampling Bureaus, and with this end in view shall trace the progress of a car of wheat from the time it is loaded at a country station until it is unloaded at a terminal elevator or mill, and accounted for to the country shipper.

## Loading the Car.

When a car of wheat is loaded by a farmers' elevator company in North Dakota for shipment to Minneapolis a bill of lading is secured from the local railway agent. This is both a receipt issued by the railroad company to the shipper for grain loaded and also a contract between the railroad company and the shipper for the transportation of this grain to the terminal market.

In loading the car of grain, the shipper should be careful to load to at least the minimum capacity of the car, as freight is charged on the minimum capacity, even though the car contains less than this amount.

On the other hand, the car should not be overloaded, as this may result in the car being wrecked.

The shipper should also place in the car a card, giving the shipping weight, as estimated by the shipper. Care should also be taken to load the grain evenly in the car, so that there shall be no appreciable difference between the character and quality of the grain in different parts of the car load. The car should also be carefully coopered, the coopering to be high enough to prevent grain spilling out in transit.

The shipper should also keep record of the depth in inches on the average to which the car is loaded. This may be of great assistance in securing settlement for shortage, as the railroad companies have a record of the inside measurements of the car so far as length and breadth are concerned, and if the depth in inches on the average is known, the total amount contained in the car can be determined very accurately, by taking into account the character of the grain and the test weight per bushel, with proper allowance for settlement.

## Bill of Lading.

There are two general forms of bills of lading in use, one known as the "straight bill of lading" and the other as the "order bill of lading." The "straight" bill of lading consigns the car of grain direct to some licensed commission merchant. When this "straight" bill of lading is signed by the shipper and the railroad agent, the title to the grain for practical purposes passes to the commission merchant to whom the grain is consigned, and the railroad company may deliver this grain to the commission merchant upon its arrival at the terminal market.

The "order bill of lading," however, may be made out either to the commission merchant, or the order of the shipper, with a notation upon the bill of lading "advise the commission merchant." In this case, the portion of the bill of lading retained by the farmers' elevator company may be taken to the nearest bank and a draft for about 90 per cent of the value of the grain drawn upon the commission merchant. If this is done, the bill of lading, endorsed by the shipper, is attached to the draft, and forwarded by the country bank to a bank at the terminal market, such as Minneapolis.

Under the provisions of the "order bill of lading," the railroad company cannot deliver the wheat to the commission merchant except upon the surrender of the order of lading by the commission merchant to the railroad company. In order to be able to surrender this bill of lading, the commission merchant must pay the draft attached to

the bill of lading and presented by the Minneapolis bank to whom the draft and bill of lading had been forwarded by the county bank. If the grain is shipped by the order bill of lading direct to the commission merchant, or to the order of the shipper, with the notation "Advise the Commission Merchant," in either case the bill of lading attached to the draft must be surrendered by the commission merchant to the railroad company in order to secure possession of the grain.

Should the railroad company deliver grain shipped on an order bill of lading to the commission merchant without the surrender of the bill of lading, the railroad company then becomes liable to the shipper for the value of the grain.

At the time that the bill of lading is signed by the local railroad agent at the country station, he also seals the car with railroad seals. In most cases these seals bear a number indicating the station from which the car was shipped. The car is then transported to the terminal market.

## Inspection of Grain.

The inspection and grading of grain in Minnesota is exclusively in the hands of the Minnesota Grain Inspection Department, which is under supervision of the Railroad & Warehouse Commission of Minnesota.

Grain shipped to Minneapolis is inspected by the State Samplers in the various railroad terminal yards where it is placed by the railroad company upon arrival. The Inspection Department also samples at certain outlying points, viz.: Staples, Glenwood, Melrose and Wilmar, Minnesota. The sampling of grain at these outlying points is for the purpose of facilitating the delivery of the grain after its arrival at the terminal market, and to prevent delay in unloading and demurrage charges. In Minneapolis the Great Northern Railway has two terminal storage yards, where grain is sampled, the Soo two yards, the Omaha one yard, the St. Louis one yard, the Great Western Railway one yard. When the cars of grain reach these terminal yards, or storage yards at the outlying points above mentioned, it is ready for State and Bureau Sampling.

During the fall and winter months, the State samplers arrive at the railroad yards above mentioned about day break, or as soon as there is sufficient light for proper sampling. The State samplers secure samples of the car for the State Inspectors, who grade the grain, but these samples are only for the use of the State Inspection Department.

It therefore is necessary for the Commission merchants and others selling grain on the Exchange Floor of the Chamber of Commerce to secure additional samples of the cars by which the grain will be sold.

A number of years ago, each commission firm and line elevator company employed its own samplers, or had the samples secured by some of their employees. However, owing to the number of railroad yards to be visited, this method was found exceedingly inconvenient, and as a result certain individuals engaged in the sampling work formed two bureaus, known as the Sampling Bureaus, and these two Sampling Bureaus now secure practically all of the samples by which grain is sold in the Exchange Room of the Chamber of Commerce. These sampling bureaus make a charge for each car sampled, and each of these bureaus have their own customers.

All of the samplers are licensed by the Chamber of Commerce, and make daily reports to the Chamber of Commerce regarding the seals broken and applied by them in the work of sampling.

The following are the Sampling and Sealing Rules under which the employees of the sampling bureaus work:

### Sampling Rules.

1. No licensed sampler shall accept a sample of grain of any kind from another sampler, state or bureau. Every sampler must sample his own car.
2. No licensed sampler is permitted to open up a car and go away without first closing the door and sealing same.
3. Sampling bureaus must provide a bar for each railroad yard, which the licensed sampler must use when necessary to aid them in closing doors so that they may be properly sealed.
4. In cases where it is not possible to close car doors, or to seal them properly, a notation must be made by the sampler upon the sealing card giving the reason.
5. Flax must be probed not less than seven times, all other grain not less than five times at points equally distributed in the car; or as many times as may be necessary in each case to obtain a correct sample.
6. All samples must be probed samples, except when large loads prevent it, in which case the sample may be taken from the doorway and marked "Grab."
7. When able to get into cars to probe them, but not able to secure a sample from the bottom, the tickets must be marked "No bottom."

### Sealing Rules.

8. Seals must be carefully protected, and must be kept under lock and key when not in use.
9. Seals must not be left hanging on car doors while samplers are in cars securing samples.
10. **SEALS MUST BE USED IN NUMERICAL ORDER.** No excuse will be taken for failure to obey this rule.
11. Defective seals must be returned to the office of the Secretary of the Chamber of Commerce, with the report of the sampler. Defective seals must be reported upon the report of seals used as being defective.
12. Seals that are lost must be reported as lost in their regular order on the sealer report.
13. Sealers must furnish their sealing report DAILY TO THEIR EMPLOYERS.
14. Seals will be issued in lots of 100 and charged to each sampler. Samplers are forbidden to loan seals under any condition whatever.
15. A new bunch of 100 seals will not be furnished to any sampler, nor to any employer for account of any sampler, until the previous lot has been fully accounted for.
16. Samplers requesting a new lot of seals through their employer must furnish their employer with the numbers of the seals still remaining in their possession.
17. Samplers securing seals direct from the Secretary's office must furnish the same information.
18. Samplers are permitted to use one-half of the back of their cards for their numbers. The other half of the back of the card must be kept free for notes regarding car doors, etc. If possible, however, these notes should be made on the face of card.

The violation of these rules, or careless sampling, would result in the revocation of the sampler's license.

As stated above, the State Samplers and the Bureau Samplers arrive in the railroad yards at the same time. The Bureau samplers are not allowed to break railroad seals, and the cars are opened, and the railroad seals broken by a State sampler, who makes a record of the seal broken, and later of the State seal applied after the car has been sampled both by State and bureau samplers.

The railroads provide offices in their yards for the use of the State and Bureau samplers. Railroad clerks also provide lists of cars of grain and seed ready for sampling. The State samplers secure samples from all of these cars, but the Bureau samplers secure samples of those cars only which are shipped to their customers. The Bureau samplers and the State samplers are not permitted to sample a car at the same time.

After the cars have been sampled, both by the State samplers and the Bureau samplers, the doors are then closed and sealed by a State sampler, who keeps a record of the seal originally broken, and the seal applied, as above mentioned.

The State sampler also makes a record of the car number and its initial. Samples are secured both by the State samplers and by the Bureaus by means of a double hollow brass tube, called a probe, which is thrust down through the grain to the bottom of the car in a number of places. These probes have openings corresponding to each other,

from one end to the other. When the probe is inserted, the inner tube is turned so that these openings are closed. After the probe reaches the bottom of the car, the inner tube is turned so as to allow the grain to rush into these openings and fill the probe. If the grain near the bottom of the car is tough and damp, it will not flow freely, and the dry grain might fill the probe from end to end. In order to prevent this, a plug is placed between the first and second openings at the end of the probe so that if the dry grain above rushes in rapidly, it cannot fill the end of the probe. This gives the tough or damp grain at the bottom of the car, if any, a sufficient time to fill the bottom section of the probe.

The work of securing samples of the car, both for inspection and sale, is exceedingly important. The samples secured should accurately represent the entire car load. Where grain is unevenly loaded, it is a difficult thing to secure an accurate sample of the car.

The State and Bureau samplers make use of a cloth in securing samples, upon which the contents of a probe are emptied. When the probe has been inserted, opened and filled with grain, the inner tube is then turned, and the probe closed and withdrawn. It is then held horizontally and opened, and the grain examined by the sampler, whether State or Bureau, to detect any variation in the quality of the grain from the top to the bottom of the car. The contents of the probe are then dumped upon the cloth and other probes taken in various parts of the car. If no appreciable variation develops, all of the grain secured by the probe from various parts of the car are then mixed together thoroughly upon the cloth, and a sample sack is filled with this mixture, care being taken that the contents of the sample bag shall be an accurate average of this grain, and shall also accurately represent the amount of foreign matter in the grain.

Should the car be unevenly loaded so that the grain in one part of the car is quite different from the other, or should the car be "plugged" by an unscrupulous shipper, two or more samples are taken of the car in as many sample sacks, and an estimate is made of the quantity of each kind of grain in the car.

The State samplers place in the sample sack just mentioned a ticket on which has been placed the car number and initial. The sample is then taken to the State Inspector's office in the Flour Exchange Building, Minneapolis, Minn., where under a proper light it is carefully graded by expert inspectors.

### Grade and Dockage.

The grade and dockage of grain is then determined by means of testing apparatus adapted to the work, consisting of finely adjusted scales and sieves of various kinds.

The grading of grain by these inspectors is based upon rules laid down by the State Inspection Department. The Minnesota Grades are fixed annually, about the first of September each year, at a joint meeting of the Grain Inspection Boards of Minneapolis and Duluth, commonly referred to as Boards of Appeal.

Each of these Boards consists of three members appointed by the Governor of Minnesota, and each member must have the same qualifications as grain inspectors, and not more than two members of each board shall be of the same political party. Their terms of office are for two years, and they are required to give a bond in the sum of \$5,000 for the faithful discharge of the duties of their office.

As stated before, these boards meet in joint session about the first of September each year, and establish the description of the grades of grain subject to State Inspection, known as the Minnesota Grades. These grades when determined are published daily for a week in a newspaper at Minneapolis and Duluth.

The State Inspectors are governed by the descriptions of the Minnesota Grades as above mentioned in inspecting the samples secured by the State samplers. These inspectors, in determining the grade and dockage of each car, do not know in any instance to whom this car of grain belongs.

After the inspectors have determined the grade and dockage of any of the cars, lists are made showing the car number, initial, grade, dockage, etc., which are posted conveniently for those desiring this information. The sample sacks are numbered in numerical order as they are inspected, and after inspection are carefully hung on sample racks to be preserved for thirty-six hours, if occasion should require, that further reference may be had to them for

either reinspection or appeal. These inspectors not only have no knowledge of the ownership of the grain that they are grading, but they do not know from whom or what point the grain was shipped, so that the judgment of the inspector at the terminal is based wholly upon the grain before him.

At the same time that the State samplers deliver their sample sacks to the State Inspection Department for grading, the bureau samplers deliver these sample sacks direct to the tables in the Exchange Room of the Chamber of Commerce, which are rented by their customers. In ordinary cases, these samples are placed upon the cash grain tables in the Exchange Room before the opening of the market at 9:30 a. m. each day.

#### Re-inspection and Appeal.

In case the owner of the grain or his representative, the commission merchant, is not satisfied with the grade or dockage, he may secure a reinspection of the grain, and may apply to the Board of Appeals after the re-inspection. Re-inspections are made by the Chief Deputy Inspector and his first two assistants, who review the grades and dockage of the other inspectors; no inspector being permitted to regrade or re-inspect his own work. If the owner or commission merchant is not satisfied with the re-inspection, an appeal may be taken to the Board of Grain Appeals, one of which is located at Minneapolis, and the other at Duluth. These Boards are in continuous session from nine o'clock a. m. until two p. m.

The bureau samplers put in their sample sacks a ticket, giving the name of the sampling company, the car number, initial and capacity, the name of the firm (their customer) for whom the sample was secured, the date and the name of the sampler.

If the commission firm representing a farmers' elevator company, is dissatisfied with the grade received, he immediately files with the State Inspection Department a request for reinspection on a blank form provided by the State, giving the car number and initial, etc., this request being signed by the commission merchant.

If this reinspection is not satisfactory to the commission merchant, he then files with the Chief Deputy Inspector an order for appeal to the Board of Appeals on a blank form provided by the State, which gives the car number, etc., and is signed by the commission merchant or party requesting the appeal. When this is done, the samples of the car upon which an appeal is taken are delivered by the State Inspection Department to the Board of Appeals, who examine the sample and determine the proper grade. The decision of the Board of Appeals is final and conclusive. In case it can be shown that the sample secured from the car by the State samplers was incorrect, the Board of Appeals will at once reconsider their decision, based upon a fresh sample.

Among the duties of the State Samplers when securing samples for inspection and grading is that of examining each car of grain for leaky conditions that might exist, and making a record of the same on their record books.

#### Sale of Grain in the Exchange Room.

The car of grain is sold in the Exchange Room of the Chamber of Commerce based upon the sample secured by the bureau sampler before mentioned. The commission merchant empties the contents of the sample sack into a sample pan which is then placed upon the cash grain table for examination by the buyer. In this pan is also placed the sampler's ticket, which was contained in the sample sack, giving information regarding the car. The samplers are required to state upon their cards whether the grain is in a heating or hot condition, if such be the case, and these tickets must be displayed in the pan when the grain is offered for sale to the buyers.

The commission merchant offering grain for sale for farmer elevator companies must be licensed by the Railroad & Warehouse Commission and must furnish a bond to the Railroad & Warehouse Commission in amount satisfactory to the commission. All commission merchants, members of the Chamber of Commerce, soliciting shipments from country merchants, are licensed and bonded by the Railroad & Warehouse Commission. Such license may be revoked by the Railroad & Warehouse Commission for cause and upon notice and hearing. For the purpose of fixing or changing the amount of bond required, the Commission may require complete statements of the business from the com-

mission merchant, these statements being for the exclusive use, however, of the Railroad & Warehouse Commissioners. The laws of Minnesota require that the commission merchants shall render a true statement in writing to the shipper within twenty-four hours, of the amount sold, price received, name and address of the purchaser, and the day, hour and minute of the sale, and shall forward vouchers for all charges and expenses. If the shipper of grain is not satisfied with the manner in which the commission merchants have handled his shipments, he may file complaint with the Railroad & Warehouse Commission, who shall investigate the matter complained of. In making the investigation, the Railroad & Warehouse Commission can compel the commission merchant to produce all books, records, etc., regarding the matter.

When the grain is sold by the commission merchant, a confirmation of the sale is promptly forwarded to the shipper, giving the particulars above mentioned. If this car has been sold to a terminal elevator or mill, orders are given to the railroad company for the delivery of this car to the terminal elevator or mill.

If the buyer desires to secure an additional sample of the car for checking purposes, he employs one of the sampling bureaus above mentioned to secure this sample for him. The bureau sampler thereupon breaks the State seal, keeping a record of the number of the seal broken and applies a Chamber of Commerce seal, all seals being numbered consecutively.

A daily report is furnished to the Secretary of the Chamber of Commerce by the bureau sampler of the seals broken and applied. When the car reaches the terminal elevator or mill for unloading, it then comes under the control of the State Weighing Department, which is also under the supervision of the Railroad & Warehouse Commission. State Weighers are located at all of the leading terminal elevators and mills. The State Weigher at once makes a careful examination of the car, to detect any bad order conditions, and a complete record is made of any such conditions found.

The inspection of the car for leaky conditions having been finished the State Weigher takes a complete seal record of the car before the seals are broken. In case the mill or elevator company, at whose plant the car has been set for unloading, should break the seals for private inspection, they also are required to make a record of the seals which they have broken, and the seals which they apply.

#### State Weighing.

After the seal record has been secured, the car is placed at the unloading pit, where by means of steam shovels the grain is unloaded from the car. The grain is then elevated to the garner, which is the large receiving hopper, located just above the scale hopper. After the scale has been properly balanced, and the hopper valves securely closed, the grain is drawn down from the garner into the scale hopper.

The grain is then carefully weighed by the State Weigher, and the original entry of weight is made in a record book provided for the purpose. He then takes a specially arranged ticket, and by means of the type registering device with which all scales on which State weights are given are equipped, he obtains a type printed record of the weight, which must correspond with the weight recorded in the book.

He then checks this type printed record with the figures that he first recorded in the record book, and if they do not agree, it is his duty to at once thoroughly investigate the work before the grain has been dropped from the scale, to discover the cause of the difference in the records.

Since an incorrect record cannot be obtained from the type register device unless it is actually broken or out of order, it is practically impossible for error to enter into the work of weighing under the present system.

Another check that tends towards accuracy is the fact that all through the weighing operation the State weigher has not been alone in the work, for the mill or elevator weigher has been present all the time, and as a result the two men are enabled to compare their work and figures as an extra precaution against mistakes.

At the larger elevators in the system where the weighing is done on hopper scales in the cupola two men are employed by the State, one being stationed upstairs where the weighing is done, and the other supervises the work of unloading and handling downstairs. This downstairs man

sees that the cars are properly swept; it is his duty to know that all of the grain has been elevated from the unloading pit before the signal is given to the State weigher above to weigh the grain, and he must know that the car is placed at the particular unloading pit which corresponds with the scale number upstairs, on which scale the State weigher has been advised the car load of grain is to be weighed. It is this downstairs man who keeps the seal record.

When a shipper of a car of grain obeys the law by placing a card in the car, giving the shipping weight, an immediate investigation is made if there is an apparent discrepancy between the State weight and the shipping weight, and it is very plain that such an investigation, made while the grain is still held in the scale hopper, is of more value than when made a few days or weeks after the weighing has been done and all the circumstances surrounding the case may have been forgotten.

When there is no shipping weight ticket placed in the car the State weigher has no means of knowing the amount of grain the shipper has loaded into the car, and consequently he would not know of the fact if a shortage did actually exist.

Where track scales are used instead of hopper scales, the loaded car is uncoupled from all other cars, placed upon the scale platform and weighed. Then when the grain has been unloaded from the car, the empty car is weighed to obtain the tare weight. This tare weight is deducted from the gross weight in order to obtain the net weight of the grain. A complete record of the work is kept the same as in hopper scale weighing, and the recorded weights are checked by means of the type registering device previously mentioned.

When the State weigher closes his report for the day, it is mailed at once to the State Weighmaster's office where the report must be on hand by 7 o'clock a. m. on the day following the weighing.

From these records on file in the Weighmaster's office, an official certificate of weight is issued, bearing upon its face the car number, initial, contents and State weight, together with the date and place where the grain was weighed. This certificate is stamped with the seal of the office of the State Weighmaster, and forms the basis of settlement between the seller and buyer in the matter of weight.

All State weighers are under a surety fund of \$5,000.00. They are wholly independent in their work, not knowing to whom a single car of grain belongs, and they also know that the tenure of their office is not dependent upon the good or ill will of mill or elevator people at those weighing stations where they may be stationed.

Scale experts are employed by the department whose sole duties are to test the scales and keep them adjusted to the government standard of weights. Nor does the State supervision cease at the testing of the scales, but takes up the details of proper scale construction, elevating machinery, and all apparatus that enters into the handling of the grain before it is fully weighed.

The mechanical improvements at the terminals have kept pace with the progress of development of the state system of records and weighing, and today in the mills and elevators are installed the most improved type of scales that money can buy.

In the matter of track scales the old wood foundations are replaced with steel and concrete, and the track scale capacity has increased from 100,000 pounds to 200,000, while the largest hopper scales in the world are in Minneapolis, with a capacity of 120,000 pounds, net.

Automatic devices are used to aid in securing exact results; the scales are sealed to prevent willful or accidental changing of the scale leverage without the knowledge of the department.

A close supervision is kept over all scales on which State weights are given, and this does not mean just ordinary care in the use of the scales, but means a complete and severe test from minimum to maximum capacity of every scale in the system.

The State Grain Department thoroughly investigates all claims that are presented.

When a claim is presented alleging a shortage, it is placed on file and handled in the order of its filing. The records are carefully checked over to see if an error has been made in transposition of numbers, addition of drafts

or by actual mistake in recording figures or a set of figures.

The type register ticket, which has been carefully preserved for reference, is then examined and compared with the figures as shown by the original written record.

The record of the work is then investigated at the unloading station. The seal records are also checked up.

Another very important branch of the State Grain Department is the system of patrol service, whereby the cars loaded with grain are watched while going through the terminal yards, to detect any leaking condition that might exist as well as to guard against pilferage.

Many times leaking cars are found and reported by these special watchmen, that would not show to be leaky except when in motion, for cars often leak in the yards when switched about and do not show evidence of leakage when set for unloading.

Much has also been accomplished in the way of protecting the property of shippers from pilferage, a loss against which the country shipper would be powerless if it were allowed to exist unchecked.

Since these special watchmen cover the whole terminal system wherever cars of grain are handled, they are a further check upon the work of seeing that the cars are properly swept at the different unloading stations which they are continually passing during their yard work.

These men are regular weighers assigned to this patrol service, and are empowered with police authority.

The State Grain Department stands as the arbitrator between the seller and the buyer; it treats both with equal fairness; it is disinterested as to the financial interest involved, its only care being to see that justice is done.

It has the supervision of grading and weighing of all grain that pours into the terminal markets, and it aims to be an active and energetic factor in the work of securing correct grades and weights, making constant efforts toward the improvement of the service by the adoption of the most modern equipment, and by the application of the experience that years in the development of the work has given.

#### Report to the Shipper.

When the exact weight of the car is known to the commission merchant, he then renders an invoice to the buyer for the amount due for the car, and also forwards an "account sale" to the country shipper, particulars regarding the car giving the car number, initial, kind of grain, gross weight, dockage, if any, and net weight, price per bushel sold at, and gross proceeds. Also showing the charges, including freight, inspection and weighing fees, commission, etc. If the shipper attached a draft to the bill of lading, and this draft has been paid by the commission merchant, this amount is deducted as an advance from the net proceeds, and the balance forwarded with the account sale to the country shipper, together with duplicate inspection and weighing certificates and expense bills, etc.

In addition to the patrol service of the Weighing Department for the purpose of checking leaking cars, the Chamber of Commerce employs inspectors who visit the local and outgoing railroad yards for the same purpose, and also to detect any cases of rough handling of the railroad equipment which might result in loss to the shipper.

The country shipper can always secure a complete seal record by applying to the State Inspection Department and to the office of the Secretary of the Chamber of Commerce. If the car at the time of unloading has a railroad seal on one side, which was attached at the shipping point, and on the other side a Chamber of Commerce seal, the Secretary's office of the Chamber of Commerce can immediately advise regarding the number of the seal broken when the Chamber of Commerce seal was applied. If this was a State seal, the State Inspection Department can furnish him the number of the seal broken when the State seal was applied. By this method a complete sealing record is kept from the time the car was shipped until it is unloaded, even though it may have been opened for sampling several times.

If the farmers' elevator company is dissatisfied with the treatment accorded him by the commission merchant, he can make complaint to the Railroad & Warehouse Commission, and in addition can file complaint with the Secretary of the Chamber of Commerce, who will investigate the shipment. Farmers elevator companies and shippers generally, should not hesitate to request an investigation of their shipments by the Secretary of the Chamber of Commerce.

# The Grain Commission Merchant.

By  
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In this article, we shall first discuss the laws governing the grain commission merchants, and shall set forth in a general way the nature of their business, and the service which they render as the representatives of farmers' elevator companies and independent shippers throughout the Northwest, whose grain and seed they sell to the flour mills, linseed oil industries, storage terminal elevators, maltsters, exporters, etc.

## Definition—Licenses—Bond.

The law of the State of Minnesota states that

"A commission merchant is a person who may receive for sale for account of the consignor any agricultural products or farm produce. No person shall sell, or receive, or solicit consignments of such commodities for sale on commission, without first obtaining a license from the State Railroad & Warehouse Commission to carry on the business of a commission merchant, and executing and filing with the Secretary of the State a bond to be fixed, and sureties to be approved, by the Commission, which may increase or reduce the amount of the bond from time to time."

## Application for License—Conditions of Bond—Additional Bonds.

The Laws of the State of Minnesota further provide:

"The application for license shall be in writing, stating the commodities for which license to sell is wanted, and giving the business address of the applicant, and the estimated volume of business to be done monthly. If he desires a license which shall authorize him to sell grain, the bond shall be conditioned that he reports to all persons consigning grain to him, and pay to them the proceeds of its sale, less commissions and actual disbursements; otherwise, the bond shall be conditioned for the faithful performance of his duties as commission merchant. All licenses shall expire May 31 of each year. The fee for each license shall be one dollar. Such license may be revoked by the Commission for cause upon notice and hearing.

## Commission May Require Confidential Statements.

(The Statute states further:) For the purpose of fixing or changing the amount of bond, the Commission shall require statements of his business from a licensee, and if he fail to render such statements, or to furnish any new bond required, the Commission may revoke his license. All such statements shall be for the exclusive information of the Commissioners, unless they shall be required for use in court, in which case the Commissioners shall produce them.

## Statement to Consignor.

"Whenever a licensee sells any grain, he shall render a true statement in writing to the consignor within twenty-

four hours of the amount sold, price received, name and address of purchaser, and the day, hour and minute of the sale, and shall forward vouchers for all charges and expenses.

## Action on Bond.

"If any licensee shall fail to account for any consignment of any of the commodities mentioned in this subdivision, or to pay to the consignor moneys due on such consignments, the consignor, or his agent within 90 days of the date of shipment may file with the Commission an affidavit, setting forth the matters complained of. Thereupon such consignor within a year after the cause of action accrues, may bring an action upon the bond of the licensee, and recover the amount due him on account of such consignment. If such licensee has become liable to more than one consignor, and the amount of his bond be insufficient to pay the entire liability, the consignors shall be compensated in proportion to their several claims.

## Violations—Penalty, Etc.

"Any person engaged in selling any property as herein specified, who fails or neglects to comply with any of the provisions of this subdivision, shall be guilty of a misdemeanor, and, on conviction thereof, shall be punished by a fine of not less than twenty-five dollars; and the Commission, either upon such conviction, or upon its own findings after investigation, if the facts warrant it, may cancel the license of any person guilty of any violation of law, or of conduct prejudicial to the interests of those making consignments to him to be sold on commission. Where a license has been cancelled, the Commission may refuse to issue any license to such person for a term of one year. WHENEVER REQUESTED TO DO SO BY ANY INTERESTED SHIPPER, THE COMMISSION SHALL HAVE POWER TO INVESTIGATE ANY SALE OR TRANSACTION CARRIED ON BY ANY PERSON LICENSED HEREUNDER, AND FOR THAT PURPOSE SHALL HAVE THE RIGHT TO EXAMINE THE BOOKS AND ACCOUNTS OF ANY LICENSED COMMISSION MERCHANT WHICH IN ANY MANNER RELATE TO SUCH SALE OR TRANSACTION. ANY LICENSED COMMISSION MERCHANT, OR ANY AGENT IN CHARGE OF SUCH ACCOUNTS, WHO SHALL FAIL OR REFUSE TO SUBMIT SUCH BOOKS OR ACCOUNTS FOR THE EXAMINATION OF THE COMMISSION, SHALL BE GUILTY OF A MISDEMEANOR."

The foregoing sets forth in a general way the safeguards which the State of Minnesota has thrown around shipments of grain to commission merchants, members of the Chamber of Commerce.

The very large increase in the number of farmers' elevator companies and independent dealers in the Northwest in the past ten years, has resulted in a corresponding in-

crease in the number of commission merchants, and today they represent a very important element in the Chamber of Commerce of Minneapolis.

These individuals are probably among the most skillful salesmen in the world, and possess a thorough knowledge of the various kinds of grain, and in addition are intimately acquainted with market conditions, not only at Minneapolis but elsewhere, with the result that grain consigned to them for sale is handled not only honestly but with the greatest possible efficiency. The keen competition between the commission merchants for the business of the farmers' elevators and the independent dealers results in the greatest possible rivalry between them in the effort to secure the best possible prices for grain. Very few farmers' elevator companies ship all of their grain to one commission concern, and an increasing number of farmers' elevator companies and independent shippers ship grain to more than one commission concern, in order to enable them to compare the service rendered and the results secured by the various commission merchants. This fact is well known to the commission merchants, and in selling a car of grain they realize that it is entirely possible that their customer has shipped another car of grain at the same time to another commission merchant; and that if they are to hold the business of their customer, they must actually succeed in securing as good results as any of the commission merchants competing with them.

The buying interests in the Chamber of Commerce, consisting of the Minneapolis millers, and millers whose mills are located in the neighborhood of Minneapolis, the linseed oil manufacturers, the maltsters, and the terminal elevator operators, all employ very capable individuals as buyers, and it is therefore necessary that those in charge of the sale of grain for the farmers' elevator and independent dealer in the Northwest shall be quite equal in ability and technical knowledge and general grasp of the grain business to the buyers for these buying interests, if the grain of the shipper is to secure full market value. It is generally conceded that in fact the buying interests, although represented by exceedingly capable individuals, have no advantage whatever, from the standpoint of ability or technical knowledge, over the commission merchants, the representatives of the farmers' elevators or independent dealers.

The general impression prevails that the grain commission business consists mainly of receiving and selling consignments of grain for a stated commission. The fact is that the actual receiving and selling of the grain, while a very important part of the commission merchant's duties, is only a portion of the work which he performs and the service which he renders to the farmers' elevators and independent dealers.

At the beginning of each crop year, the grain commission merchant is called upon to inform the farmers' elevator buyer at the country station as to the different grades and values of the new crop's first movement to the market. This is done by means of correspondence through the mail, forwarding of samples of the official grades to the country stations, and by sending qualified traveling men to visit the farmers' elevator buyer, in order that he may be accurately and promptly informed regarding the probable grade and value of the grain represented by the new crop.

Upon the accuracy and completeness of the information furnished by the commission firm to the farmers' elevator company at the beginning of the crop season, depends to quite a degree the success of the farmers' elevator company, especially in securing the same grades at the ter-

rninal markets which they allow to the farmers delivering grain at the elevators.

At the beginning of each crop year, also, in a very large number of cases, the commission merchant arranges to furnish the farmers' elevator company, or independent dealer, the necessary funds with which to purchase the grain at the country station. This arrangement is frequently made because the farmers' elevator company is able to secure these funds from the commission merchant at a lower rate of interest than they would be required to pay locally. This practise has become so widespread, that one of the problems before the commission merchants at the beginning of each crop year is the necessity for making arrangements for sufficient funds for their customers. The commission merchant usually finds it necessary to secure this money for periods of from four to six months' time, but this is usually loaned on demand to the farmers' elevator and independent dealer, and the commission merchant necessarily must carry a sufficient balance at all times to meet the calls upon him which may be made by his customers.

The grain commission merchant also, being the representative of the farmers' elevator and independent dealer at the terminal market, renders considerable assistance to his customers in securing cars for the shipment of grain from the country station, and indirectly assists the railroads to some extent in such movement by advising them of their shippers' necessities.

The commission merchant takes samples of the cars shipped by his customers, employing one of the sampling bureaus connected with the Chamber of Commerce for this purpose. These samples are secured from all cars on the day of arrival, and the commission merchant looks carefully after the inspection of such cars, and calls reinspection or appeal, if in his judgment such action is necessary, or is requested by his customer.

These samples of cars are then displayed upon the cash grain tables in the Exchange Room of the Chamber of Commerce, which are rented by the commission merchants from the Chamber of Commerce for that purpose. These samples are then examined by the buyers for all of the various buying interests. The buying interests, members of the Chamber of Commerce, include practically all buyers of any consequence, not only at Minneapolis, but in the neighborhood of Minneapolis.

The competition between the various buying interests is so great, and the skill of the commission merchant is of such a high order, as to make it practically certain that the grain will be sold for its full value.

After the cars are sold by the commission merchant to a miller, terminal elevator, linseed oil manufacturer, maltster or exporter, the commission merchant has to look after the delivery of the grain to the unloading point, and will spend considerable time every day tracing such cars as are not promptly delivered to the buyer.

As soon as the car is sold, the commission merchant makes a notation on a card (known as a trading card), noting the sale of the car, the time, the name of the miller or other buyer, and the buyer makes a similar notation upon a card, noting the purchase of this car from the commission merchant. After the close of the market, the commission merchant and the buyer exchange written confirmations of this sale, in order to prevent misunderstandings; and the commission merchant also forwards a confirmation of the sale to the country shipper, which informs the country shipper as to the price secured, the party to whom sold, the date, hour and minute of the sale.

After the car is delivered to the buyer's industry, it is there unloaded under the supervision of the State Weighmaster's Department, and weighed by the deputy State weighmaster. As soon as the weights are known, the commission merchant renders an invoice to the buyer for the amount due, and also forwards to the country shipper an "account sale", which sets forth in detail all of the particulars regarding the car sold, and the car number, initial, grade, dockage if any, gross weight, net weight, price per bushel, and gross proceeds in dollars and cents; also the charges, such as freight, weighing, inspection, interest upon the advance, if any, commission, etc., and also the net amount secured for the car. If an advance has been made upon the car, this is deducted and the balance forwarded to the shipper with account sale. In addition, the commission merchant forwards duplicate certificates of weight and grade.

If there appears to be a shortage in weight, as compared with the shipper's weight, the commission merchant then has to make out and file claims upon the railroad for the account of the shipper for the loss due to the shortage or leakage, and a considerable amount of work of this character is performed by the commission merchant, for which no charge whatever is made.

In addition to this, the commission merchant must keep the farmers' elevator company or independent dealer in the country constantly advised as to the change in market values and market conditions generally, and must have in mind at all times the best interests of his customer. If at times certain classes of grain can be shipped to other markets to the better advantage of the country shipper, the commission merchant must so advise the shipper, and must at all times furnish him with such information as will enable him to ship his grain to the point offering the greatest advantages.

Many mis-statements are made by those not members of the Chamber of Commerce from time to time, for the purpose of misleading the country shipper. One of these is to the effect that grain received by commission merchants from country shippers is sold again and again before being purchased by the ultimate consumer,—such as the flour miller or linseed oil manufacturer, maltster, exporter, etc. The fact is, that perhaps 99 per cent. of all the grain received by the commission merchant from country shippers is purchased immediately by the ultimate consumer, or by a terminal elevator storing the grain for the ultimate consumer during the heavy crop-moving period. In other words, it is only a very limited number of cars of off-grade wheat or of coarse grains that are bought and sold more than once.

During the heavy crop-moving period, the receipts of grain and flax-seed are greater than the ultimate consumers above mentioned can make use of, and so the terminal elevator companies purchase this surplus from the commission merchants, and store the same in their terminal elevators, selling it for future delivery in May or July to the ultimate consumers, such as the flour millers, linseed oil manufacturers, etc., who do not have sufficient storage capacity.

In other words, the grain and seed shipped by the farmers' elevator companies and independent dealers is sold direct to millers and ultimate consumers; the only middleman being the commission merchant, who fully earns the one cent per bushel commission which he charges for his services for selling Wheat, Barley or Rye, and  $\frac{3}{4}$  cent per bushel for selling Corn, and  $\frac{1}{2}$  cent per bushel for selling Oats.

Today, and for many years past, the grain shipped by

farmers' elevators and independent dealers to Minneapolis has been sold both honestly and efficiently by these commission merchants, members of the Chamber of Commerce; and in connection, attention should be called to another mis-statement, meant to mislead the farmers' elevator companies, and which is to the effect that farmers' elevators would not be permitted to become members of the Chamber of Commerce, or to sell their own grain in the Exchange Room of the Chamber of Commerce, to the millers, linseed oil manufacturers, maltsters and other buyers. This statement is absolutely false. The mere fact that the company is a farmers' elevator company would not in the smallest degree present any obstacle to its admission; the only qualifications necessary being the same as for any corporation applying for admission, viz., a record for honesty on the part of its representatives and reasonable financial stability.

On the other hand, the effort to establish another grain exchange, such as the Chamber of Commerce of Minneapolis, is a piece of absolute foolishness. Grain exchanges do not compete with each other at all. They are not engaged in the grain business at all. The only business which a grain exchange, such as the Chamber of Commerce of Minneapolis or Duluth Board of Trade, engages is in furnishing suitable buildings and trading rooms for its members, securing from other markets complete information regarding grain values, etc., and in providing regulations under which the grain business shall be conducted.

The competition in the grain business is entirely between its members. This competition is not only very keen within each exchange or market place, but the buying interests in a grain exchange are active competitors of the buying interests in other exchanges, especially where the grain territory is tributary to both markets. A grain exchange cannot be established by simply establishing a selling agency. It is necessary to have buyers in order to make a market place. The establishment of another grain exchange would not increase the number of buyers in the least. For instance, practically all of the buying interests of any consequence whatever, located at Minneapolis, and also within a radius of 150 miles from Minneapolis, are members of the Chamber of Commerce of Minneapolis, and they purchase their grain within the Exchange Room of this organization. These buying interests actively compete with each other for the grain from the farmers' elevator companies offered for sale by the commission merchants, in the Exchange Room of the Chamber of Commerce. The establishment of another grain exchange, with all of the facilities of the Chamber of Commerce, would simply put an additional burden upon the shipper by reason of the expense of the maintenance of two market places, the number of buyers not being increased at all. No greater competition would exist in the purchase of the grain than exists at present.

Probably 95 per cent. of the buying interests for the Chamber of Commerce will not purchase grain at all from any selling agency not a member of the Chamber of Commerce, on account of the risks which they must assume in making these purchases. When the buying interests purchase grain in the Exchange Room of the Chamber of Commerce, they understand all of the rules and regulations surrounding the purchase; and the seller, the commission merchant, must guarantee the title to the grain. In addition to this, in case of a dispute regarding any sale, the buying interests can require the matter to be submitted to the Board of Arbitration of the Chamber of

Commerce for settlement, which they could not do if the seller was not a member of the Chamber of Commerce.

For these reasons, the buying interests either decline to purchase any grain whatever except in the Exchange Room of the Chamber of Commerce, or else make their offers enough below the Chamber of Commerce values so that their profits will justify the risk.

Not only is there no obstacle in the way which would prevent farmers trying the experiment of selling their own grain in the Exchange Room of the Chamber of Commerce; but, if in their opinion, the profit to be made in the operation of a terminal elevator was sufficiently great to justify the risk, there is no reason why they should not try the experiment of operating a terminal elevator.

They might also engage in the shipping and export business, should they believe that the saving to be effected would justify this experiment. And even going further, they might secure a flour mill, and engage in the manufacture of flour, grinding their own wheat into flour, and thus secure the milling profit. The experiment might even be tried of establishing a bakery, which would supply bread to the actual consumers. If all these experiments were tried, the producers would be not only marketing their own grain locally at the country station, but would be disposing of the same at the terminal market, or stor-

ing it in their own terminal elevator, exporting a portion of the same, grinding the balance into flour in their own flour mill, and transforming this flour into bread for the actual consumer.

The point we wish to make is, that there is no branch of the grain or milling business which the producers are not free to undertake, if they so desire. The grain commission business, the terminal elevator business, the shipping and export business, the milling business, the manufacture of linseed oil, and the operation of a large bakery, all call for business judgment and training of the highest order. In addition, ample capital and credit are necessary for success, owing to the fierce competition which exists in every one of these lines of business. But so far as the Chamber of Commerce is concerned, it has no objection whatever to the farmers' elevator companies joining together and engaging in any or all of these various lines of business.

The reports of the commercial agencies show, however, that a very large proportion, about 90 per cent., of those who engage in any branch of business fail, and that these failures are due in most cases to lack of business experience and training, lack of sufficient capital and credit, or both.



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